

27 September 2018

International Valuation Standards Council
4 Lombard Street
LONDON
EC3V 9AA
UK

Via email: aaronsohn@ivsc.org

Dear Sir or Madam

IVS 2017 Proposed Revisions Exposure Draft

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the International Valuation Standards Council (IVSC) on the IVS 2017 *Proposed Revisions Exposure Draft*. We have provided our responses to the questions included in the Exposure Draft in Appendix A and Appendix B provides more information about Chartered Accountants Australia and New Zealand.

Key points

- Overall, we generally support the proposed amendments included in the Exposure Draft as they represent improvements in the guidance provided by the IVS.
- We are strongly of a view that IVS should consider the inclusion of calculation engagements but also differentiate them from a valuation.

Should you have any queries concerning the matters raised in our submission or wish to discuss them in further detail, please contact Karen McWilliams via email karen.mcwilliams@charteredaccountantsanz.com or by phone Richard Stewart on +61409828126.

Yours sincerely,



Simon Grant FCA
Group Executive
Advocacy & Professional Standing
Chartered Accountants Australia and
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Appendix A

IVS Glossary

Our members' views differ in respect of the proposed definitions for the new terms, with some finding them helpful and others finding them confusing. Given the different perspectives across the valuation community, we would support a consensus view on these points.

Question 1: Do you believe that IVS should define the terms Price, Cost, and Value? If so, please discuss why you think the additional definitions are necessary.

Yes. We note that the differences between price, cost and value are significant and often confused by both valuers and the users of valuation reports. Accordingly, we consider it important for the IVS to define these terms to increase the clarity of valuation interpretation.

Question 2: Do you believe IVS should define *Calculation* and *Calculation Engagement*? Please explain why.

Yes, we support the IVS defining these terms. We note that this is consistent with the Valuation Services mandatory standards for the majority of Australian and Canadian Valuers. The critical issue is separating a report where the valuer owns the assumptions (ie a Valuation) from a numerical exercise where the client has instructed the major assumptions or techniques to be used.

Question 3: Should a *Calculation* be IVS compliant, and if so, what differences in the scope of work and disclosures outlined in IVS should be required by the valuer?

Yes, we consider it appropriate for a Calculation to be IVS compliant as this is a common valuation related service. We suggest that the differences in the scope of work should reflect those in [APES 225 Valuation Services](#) and we also recommend that the definitions used also align with APES 225. We suggest the disclosures should include:

- The limitations in scope, assumptions and data imposed on the valuer; and
- A clear distinction between a calculation to a full scope valuation, and a note that the outcomes could have been different should a full valuation have been prepared.

IVS102 – Investigations and compliance

In general, we support the drafted amendments to IVS102.

Question 4: Should IVS provide examples of “substantial” limitations? If so, please provide examples of such limitations.

Yes, we support the provision of examples. We consider examples of substantial limitations could include:

- Limitations on the data provided to the valuer, including access to management; and
- Instructed techniques, methodologies and assumptions imposed or otherwise not chosen by the valuer.

IVS105 – valuation approvals and methods

Question 5: Do you agree with the suggested changes to IVS 105 section on Discount Rates? If not, please provide details of the additional information you think should be included or excluded from this section.

Yes, we agree with the suggested changes to the section on Discount Rates. However, we also consider that there remains scope for a detailed discussion paper on the various methods of estimation of discount rates.

Appendix A

IVS200 – Business and Business Interests

We support the drafted amendments to IVS200.

Question 6: Do you agree that the methods are more relevant to business valuation and the placement in IVS 200 is appropriate? If no, please explain why.

Yes, we consider these methods to be more relevant to business valuation and therefore the placement in IVS 200 is appropriate. We note that different ownership interests are most frequently an issue in business valuations rather than property, plant and equipment or financial instruments which are typically valued on a 100% basis.

Question 7: Are there additional methods that should be included in the proposed revisions, for example the Hybrid Method? If yes, please discuss the additional methods to consider.

We note that many methods, including the three described, are variations on probability/option techniques. However, there are natural extensions beyond the three that are described. For example the PWERM could be evaluated using Monte-Carlo techniques, or binomial lattice techniques. Techniques are also often used to combine multiple approaches such as in the hybrid method. In addition, certain hybrid, preference and convertible securities can be derived from credit based models by either observing a traded price for similar securities, or developing a yield based on fundamental analysis of the instrument's credit profile.

Accordingly, we consider that the current drafting around the three models appears restrictive when compared to the many options the valuer has access to when assessing the value of these instruments. We recommend that the drafting of this section be broader to include more of the available techniques.

On a detailed matter, we note that the discussion of the OPM technique focused on the Black-Scholes-Merton (BSM) model (see para 130.16). The BSM depends, inter alia, on a log normal distribution of returns and normal distribution of future asset prices. For early stage companies the distribution of future asset prices is highly skewed, and adopting a BSM model, which assumes normal distribution of values in the future, can lead to misleading conclusions. We recommend that this is commented on in the guidance.

Question 8: Are there additional topics within Early Stage Company Valuation that you feel should be included in IVS or explored further by the Boards? Please provide an outline for any topics suggested.

Yes, we consider there are a number of topics related to Early Stage Company Valuation that could be explored further. The following is a non-exhaustive list:

- The Venture-Capital (VC) life cycle;
- Survival statistics and VC success statistics (ideally discussion of the distribution of outcomes);
- Discussion of bid-ask spreads and liquidity considerations in the VC market;
- Examples of valuation techniques used in the market including common rules of thumb:
 - VC method
 - Real options/probabilistic DCF
 - Market based
 - Scorecard style methods (e.g. Berkus)
 - Inferring values from class transactions (i.e. backsolve methods);
- VC discount rates; and
- Market sizing, and mature margin/exit multiples estimates for differing types of business.

IVS410 – Development property

We have no comments on the proposed amendments and questions relating to this standard as our members are Business Valuers.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.